

Business Situation

Preliminary Estimates for the First Quarter of 2004

ACCORDING to the “preliminary” estimates of the national income and product accounts (NIPAs), the U.S. economy grew a little faster in the first quarter of 2004 than in the fourth quarter of 2003. Inflation also picked up, partly reflecting an upturn in energy prices. Much the same picture was shown in the “advance” estimates released a month ago (chart 1 and table 1).¹

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates, unless otherwise specified. Quarter-to-quarter changes are differences between these published estimates. Percent changes are calculated from unrounded data and annualized. “Real” estimates are in chained (2000) dollars, and price indexes are chain-type measures.

This article was prepared by Daniel Larkins and Alyssa E. Holdren.

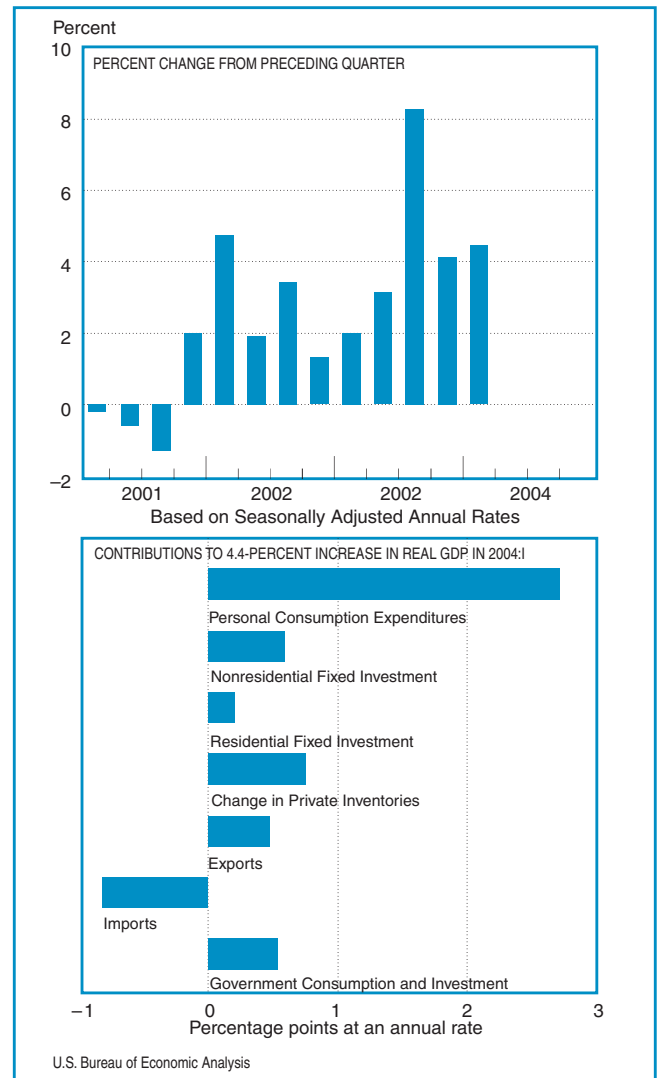
Table 1. Real Gross Domestic Product and Components
[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real GDP (percentage points)				Share of current-dollar GDP (percent)
	2003			2004	2003			2004	
	II	III	IV	I	II	III	IV	I	
Gross domestic product (GDP)	3.1	8.2	4.1	4.4	3.1	8.2	4.1	4.4	100
Personal consumption expenditures	3.3	6.9	3.2	3.9	2.34	4.89	2.29	2.71	70.3
Durable goods	17.7	28.0	0.7	-4.2	1.38	2.23	0.06	-0.36	8.3
Nondurable goods	1.2	7.3	5.4	6.6	0.25	1.48	1.07	1.32	20.3
Services	1.7	2.8	2.8	4.2	0.71	1.19	1.16	1.76	41.6
Gross private domestic investment	4.7	14.8	14.9	10.1	0.73	2.17	2.19	1.55	15.9
Fixed investment	6.1	15.8	9.9	5.1	0.90	2.30	1.48	0.80	15.6
Nonresidential	7.0	12.8	10.9	5.8	0.68	1.25	1.08	0.59	10.3
Structures	3.9	-1.8	-1.4	-7.0	0.09	-0.04	-0.03	-0.17	2.3
Equipment and software	8.0	17.6	14.9	9.8	0.59	1.30	1.11	0.76	8.0
Residential	4.5	21.9	7.9	3.8	0.22	1.05	0.40	0.20	5.3
Change in private inventories					-0.17	-0.13	0.71	0.75	0.2
Net exports of goods and services					-1.34	0.80	-0.32	-0.35	-4.6
Exports	-1.1	9.9	20.5	4.9	-0.11	0.92	1.81	0.47	9.9
Goods	-1.7	8.6	21.3	6.3	-0.11	0.56	1.29	0.42	6.9
Services	0.2	12.7	18.9	1.8	0.01	0.36	0.52	0.05	3.0
Imports	9.1	0.8	16.4	5.9	-1.24	-0.12	-2.14	-0.82	14.5
Goods	13.7	-1.5	18.3	6.6	-1.51	0.18	-1.96	-0.76	12.1
Services	-10.9	13.4	7.5	2.6	0.27	-0.30	-0.17	-0.06	2.4
Government consumption expenditures and gross investment	7.4	1.8	-0.1	2.9	1.36	0.34	-0.01	0.54	18.5
Federal	23.5	1.2	0.7	9.2	1.46	0.09	0.05	0.62	7.0
National defense	41.9	-1.3	3.0	13.2	1.58	-0.06	0.13	0.58	4.7
Nondefense	-5.0	6.5	-3.7	1.5	-0.12	0.15	-0.09	0.04	2.3
State and local	-0.8	2.1	-0.5	-0.7	-0.10	0.25	-0.06	-0.08	11.5

NOTE: Percent changes are from NIPA table 1.1.1, and contributions to percent change are from NIPA table 1.1.2. Shares are from NIPA table 1.1.10.

- Real GDP increased 4.4 percent in the first quarter after increasing 4.1 percent in the fourth. The advance estimate for the first quarter had shown a 4.2-percent increase. (The average annual rate of growth of real GDP over the past 10 years was 3.3 percent.)
- Prices of goods and services purchased by U.S. residents increased 3.3 percent after increasing 1.3 percent. The advance estimate had shown a first-quarter increase of 3.2 percent.

Chart 1. Real Gross Domestic Product



The small step-up in real GDP growth in the first quarter was mainly accounted for by government spending and consumer spending; in contrast, nonresidential fixed investment and residential investment contributed less to GDP growth in the first quarter than they had in the fourth.² Inventory investment added about the same amount to GDP growth in the first quarter as in the fourth, and international trade (net exports) subtracted about the same amount in the first quarter as in the fourth.

Government spending increased 2.9 percent and contributed 0.54 percentage point to GDP growth in the first quarter after subtracting 0.01 percentage point in the fourth. Spending by the Federal Government stepped up; in contrast, spending by state and local governments decreased slightly more than in the fourth quarter.

Consumer spending increased 3.9 percent and contributed 2.71 percentage points to GDP growth after contributing 2.29 percentage points. Purchases of services and of nondurable goods increased more than in the fourth quarter, but purchases of durable goods turned down.

Inventory investment added 0.75 percentage point to GDP growth as the pace of inventory accumulation stepped up; in the fourth quarter, inventory investment had added 0.71 percentage point, as inventory liquidation gave way to accumulation.

Nonresidential fixed investment increased 5.8 percent and contributed 0.59 percentage point to GDP growth after contributing 1.08 percentage points. Investment in equipment and software increased less than in the fourth quarter, and investment in structures decreased more than in the fourth quarter.

Residential investment increased 3.8 percent and contributed 0.20 percentage point to GDP growth after contributing twice as much in the fourth quarter. The slowdown was more than accounted for by single-family housing.

International trade subtracted 0.35 percentage point from GDP growth in the first quarter after subtracting 0.32 percentage point in the fourth. Exports and im-

ports each increased less than in the fourth quarter.

The preliminary estimates for the first quarter also show the following:

- Real disposable personal income increased 4.9 percent after increasing 1.2 percent.
- Real final sales of domestic product (GDP less the change in private inventories) increased 3.7 percent after increasing 3.4 percent.
- Real gross domestic purchases increased 4.6 percent after increasing 4.3 percent.
- The production of goods and of services stepped up, while the production of structures turned down (table 2).
- Motor vehicle output turned down. Excluding motor vehicles, real GDP increased 4.7 percent after increasing 4.2 percent.
- Final sales of computers slowed. Excluding these sales, real GDP increased 4.5 percent after increasing 3.9 percent.
- The gross saving rate—saving from all sources as a percentage of gross national income—decreased to 14.2 percent from 14.4 percent. The net saving rate decreased to 2.5 percent from 2.7 percent. (Net saving, which excludes the consumption of fixed capital, is a measure of the saving that is available for augmenting the stock of fixed assets.)

Table 2. Real Gross Domestic Product by Type of Product
[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real GDP (percentage points)				Share of current-dollar GDP (percent)
	2003			2004	2003			2004	2004
	II	III	IV	I	II	III	IV	I	I
Gross domestic product (GDP) ...	3.1	8.2	4.1	4.4	3.1	8.2	4.1	4.4	100
Final sales of domestic product ..	3.3	8.3	3.4	3.7	3.25	8.34	3.44	3.69	99.8
Change in private inventories.....	.....	.....	.....	.....	-0.17	-0.13	0.71	0.75	0.2
Goods.....	2.2	18.3	7.1	7.6	0.75	5.67	2.30	2.47	33.0
Services.....	3.6	2.1	2.8	3.6	2.08	1.27	1.61	2.07	57.5
Structures.....	2.8	13.9	2.4	-1.0	0.26	1.27	0.23	-0.09	9.4
Addenda:									
Motor vehicle output.....	2.1	26.6	3.7	-3.2	0.07	0.82	0.13	-0.11	3.4
GDP excluding motor vehicle output...	3.1	7.6	4.2	4.7	3.01	7.39	4.01	4.56	96.6
Final sales of computers.....	32.8	93.4	32.3	3.7	0.25	0.65	0.29	0.04	1.0
GDP excluding final sales of computers	2.8	7.6	3.9	4.5	2.83	7.56	3.85	4.41	99.0

NOTE. Percent changes are from NIPA table 1.2.1, and contributions to percent change are from NIPA table 1.2.2. Shares are calculated from NIPA table 1.2.5.

2. In this article, "government spending" is shorthand for the NIPA series "government consumption expenditures and gross investment," "consumer spending" is shorthand for "personal consumption expenditures," and "inventory investment" is shorthand for "change in private inventories."

Personal Consumption Expenditures

In the first quarter, real personal consumption expenditures stepped up to a 3.9-percent increase from a 3.2-percent increase in the fourth quarter (table 3 and chart 2). (Over the past 10 years, consumption spending has increased at an average annual rate of 3.7 percent.) Purchases of nondurable goods and of services increased more than in the fourth quarter, while purchases of durable goods turned down.

In nondurable goods, pickups in purchases of food and of clothing were partly offset by a downturn in purchases of energy goods and by a slowdown in purchases of "other" nondurable goods.

In services, most components contributed to the first-quarter step-up. The most notable were brokerage charges and investment counseling, which increased more than in the fourth quarter, and net foreign travel, which increased after decreasing. (Net foreign travel is

"foreign travel by U.S. residents" less "expenditures in the United States by nonresidents"; in the first quarter, expenditures by nonresidents turned down.)

Most of the downturn in purchases of durable goods was accounted for by motor vehicles, which decreased about twice as much as in the fourth quarter. Net purchases of used autos decreased after increasing, and purchases of new and used light trucks—pickups, vans, and sport utility vehicles—decreased more than in the fourth quarter; in contrast, purchases of new autos increased modestly after a sizable drop. "Other" durable goods, which includes jewelry and watches, increased about half as much as in the fourth quarter. Furniture and household equipment increased about the same as in the fourth quarter; a step-up in pur-

Table 3. Real Personal Consumption Expenditures
[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real PCE (percentage points)				Share of current-dollar PCE (percent)
	2003			2004	2003			2004	
	II	III	IV	I	II	III	IV	I	
Personal consumption expenditures (PCE).....	3.3	6.9	3.2	3.9	3.3	6.9	3.2	3.9	100
Durable goods	17.7	28.0	0.7	-4.2	1.98	3.13	0.08	-0.51	11.9
Motor vehicles and parts	15.3	39.7	-8.4	-17.4	0.77	1.92	-0.49	-1.01	5.1
Furniture and household equipment	19.4	22.9	10.1	10.0	0.77	0.92	0.42	0.42	4.4
Other ¹	20.0	12.5	6.5	3.3	0.43	0.29	0.15	0.08	2.4
Nondurable goods	1.2	7.3	5.4	6.6	0.35	2.08	1.52	1.87	28.9
Food	2.4	7.3	3.3	8.1	0.32	0.99	0.45	1.10	13.9
Clothing and shoes	7.8	9.4	1.3	14.5	0.30	0.37	0.05	0.55	4.1
Gasoline, fuel oil, and other energy goods	-18.6	3.7	22.5	-1.6	-0.56	0.10	0.55	-0.04	2.9
Other ²	3.6	7.6	5.8	3.3	0.29	0.61	0.46	0.26	8.0
Services	1.7	2.8	2.8	4.2	1.02	1.68	1.65	2.50	59.2
Housing	1.8	2.2	1.5	2.2	0.28	0.35	0.23	0.34	15.3
Household operation	-3.3	3.5	1.2	4.4	-0.18	0.20	0.07	0.24	5.4
Electricity and gas	-12.7	4.1	1.1	8.1	-0.29	0.09	0.02	0.17	2.1
Other household operation	3.2	3.2	1.3	2.1	0.11	0.11	0.04	0.07	3.3
Transportation	-4.0	-2.2	-3.1	-0.5	-0.16	-0.08	-0.12	-0.02	3.6
Medical care	4.6	5.0	5.0	4.5	0.75	0.84	0.83	0.76	17.0
Recreation	3.6	2.6	4.1	5.9	0.15	0.11	0.17	0.24	4.1
Other ³	1.3	1.9	3.5	7.0	0.18	0.27	0.47	0.94	13.8

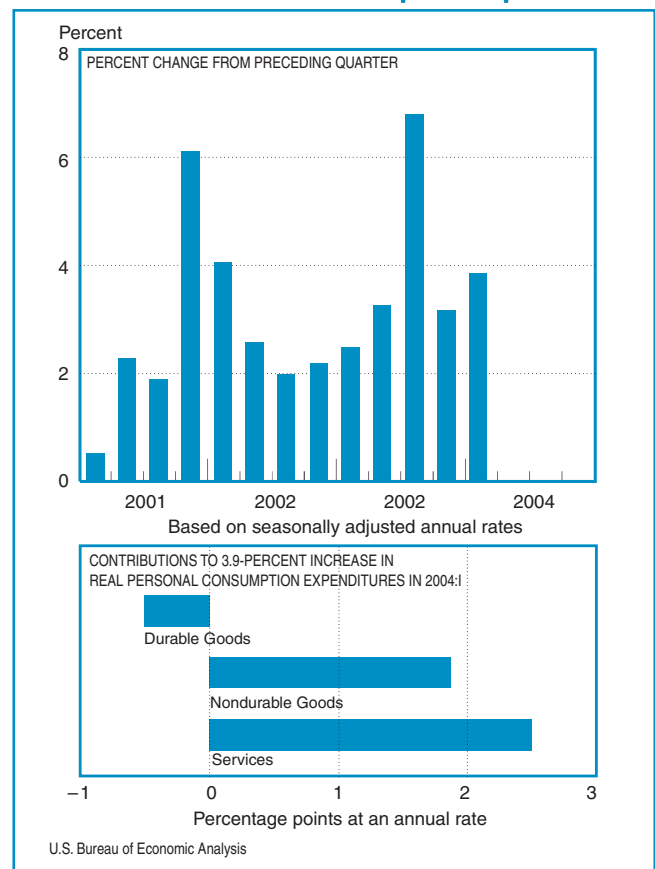
1. Includes jewelry and watches, ophthalmic products and orthopedic equipment, books and maps, bicycles and motorcycles, guns and sporting equipment, photographic equipment, boats, and pleasure aircraft.

2. Includes tobacco, toilet articles, drug preparations and sundries, stationery and writing supplies, toys, film, flowers, cleaning preparations and paper products, semidurable house furnishings, and magazines and newspapers.

3. Includes personal care, personal business, education and research, religious and welfare activities, and net foreign travel.

NOTE. Percent changes are from NIPA table 2.3.1, and contributions to percent change are from NIPA table 2.3.2. Shares are calculated from NIPA table 2.3.5.

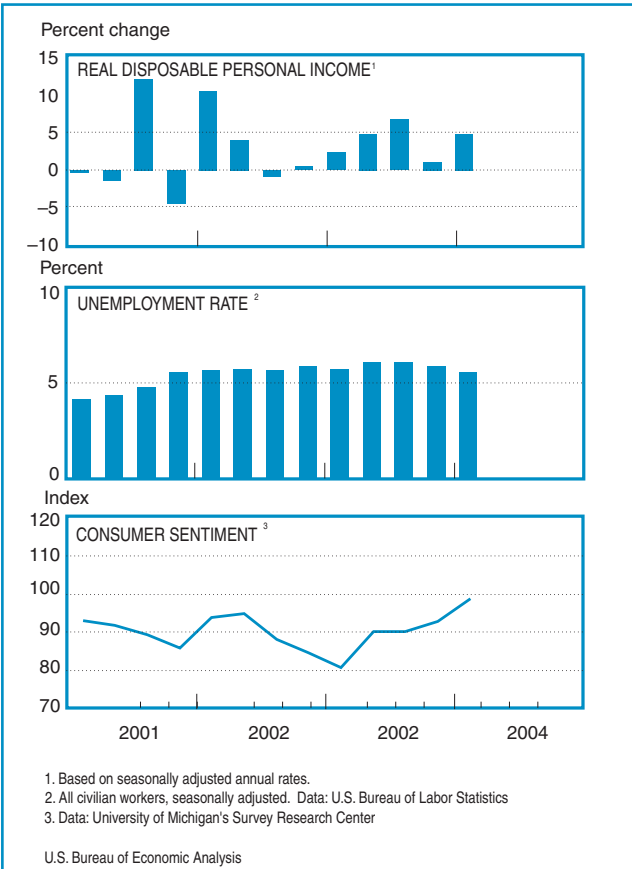
Chart 2. Real Personal Consumption Expenditures



chases of tableware roughly offset small slowdowns in several other types of furniture and household equipment.

Factors frequently considered in the analysis of consumer spending were generally favorable in the first quarter (chart 3). Real disposable personal income posted an above average increase (4.9 percent) for the third time in four quarters. The unemployment rate decreased to 5.6 percent, half a percentage point below its peak in the middle of last year. The Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center) continued its climb from its low point at the beginning of 2003.

Chart 3. Selected Factors Affecting Consumer Spending



Private Fixed Investment

Real private fixed investment increased 5.1 percent in the first quarter—about half as much as in the fourth quarter but not far below its 5.5-percent average annual rate for the past 10 years (table 4 and chart 4).

Nonresidential. Real private nonresidential fixed investment increased 5.8 percent in the first quarter after increasing 10.9 percent in the fourth. Investment in equipment and software increased less than in the fourth quarter, and investment in structures decreased more than in the fourth quarter.

The slowdown in equipment and software mainly reflected a downturn in transportation equipment, but “other” equipment and information processing equipment also contributed. In contrast, industrial equipment turned up. In transportation equipment, aircraft decreased in the first quarter after increasing in the fourth, and trucks increased less in the first quarter

than in the fourth. A slowdown in “other” equipment mainly reflected downturns in service industry machinery and in “other” furniture that were partly offset by a step-up in construction machinery. Information processing equipment and software increased slightly less than in the fourth quarter; a slowdown in computers and peripheral equipment was largely offset by step-ups in the “other” component and in software. In industrial equipment, metalworking machinery turned up, and special industry machinery decreased less than in the fourth quarter; general industrial equipment, in contrast, turned down.

In structures, the larger first-quarter decrease was mainly accounted for by the commercial and health-care category, as construction of offices and of food and beverage establishments decreased after increasing. Manufacturing and “other” structures also decreased more in the first quarter than in the fourth. In contrast, the power and communication category increased more than in the fourth quarter.

Table 4. Real Private Fixed Investment

[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real PFI (percentage points)				Share of current-dollar PFI (percent)	
	2003			2004	2003			2004		2004
	II	III	IV	I	II	III	IV	I		I
Private fixed investment (PFI)	6.1	15.8	9.9	5.1	6.1	15.8	9.9	5.1	100	
Nonresidential	7.0	12.8	10.9	5.8	4.64	8.59	7.18	3.82	65.8	
Structures	3.9	-1.8	-1.4	-7.0	0.62	-0.27	-0.21	-1.07	14.6	
Commercial and health care	-2.4	2.2	-0.5	-13.2	-0.16	0.15	-0.03	-0.86	6.0	
Manufacturing	8.8	-2.8	-4.5	-19.0	0.07	-0.02	-0.04	-0.16	0.7	
Power and communication	-24.0	-16.0	2.3	9.4	-0.85	-0.50	0.06	0.25	2.8	
Mining exploration, shafts, and wells	89.1	8.9	0.9	1.8	1.10	0.16	0.02	0.03	1.8	
Other structures ¹	13.6	-1.4	-6.4	-9.5	0.46	-0.05	-0.22	-0.33	3.2	
Equipment and software	8.0	17.6	14.9	9.8	4.02	8.85	7.39	4.88	51.3	
Information processing equipment and software	16.8	27.1	17.2	17.0	4.35	7.16	4.64	4.48	28.3	
Computers and peripheral equipment	48.6	53.4	31.8	8.5	2.26	2.68	1.74	0.50	6.0	
Software ²	9.9	15.2	14.8	17.5	1.05	1.65	1.56	1.78	10.9	
Other ³	9.7	26.8	12.2	21.3	1.04	2.83	1.34	2.20	11.4	
Industrial equipment	-1.3	1.5	-2.5	7.4	-0.11	0.13	-0.19	0.55	7.7	
Transportation equipment	-7.6	-4.8	24.2	-12.9	-0.57	-0.34	1.64	-1.02	7.2	
Other equipment ⁴	4.3	25.2	16.8	11.3	0.34	1.91	1.30	0.87	8.1	
Residential	4.5	21.9	7.9	3.8	1.50	7.18	2.69	1.30	34.2	
Structures	4.2	22.0	7.8	3.7	1.40	7.08	2.63	1.25	33.7	
Permanent site	-0.4	20.8	19.8	5.5	-0.08	4.04	3.79	1.13	20.9	
Single family	0.1	21.5	23.9	5.7	0.02	3.73	4.03	1.08	19.0	
Multifamily	-4.8	15.1	-11.4	2.9	-0.10	0.31	-0.24	0.06	2.0	
Other structures ⁵	11.8	23.8	-8.5	0.9	1.49	3.04	-1.16	0.12	12.7	
Equipment	21.3	19.3	12.9	10.7	0.10	0.09	0.06	0.05	0.5	

1. Consists primarily of religious, educational, vocational, lodging, railroads, farm, and amusement and recreational structures, net purchases of used structures, and brokers' commissions on the sale of structures.

2. Excludes software “embedded” or bundled, in computers and other equipment.

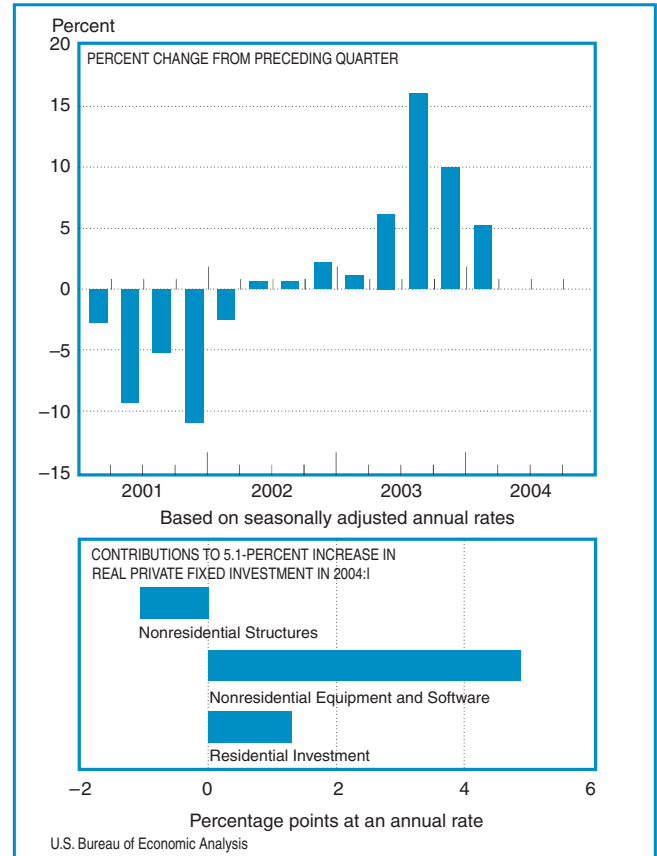
3. Includes communication equipment, nonmedical instruments, medical equipment and instruments, photocopy and related equipment, and office and accounting equipment.

4. Consists primarily of furniture and fixtures, agricultural machinery, construction machinery, mining and oilfield machinery, service industry machinery, and electrical equipment not elsewhere classified.

5. Consists primarily of manufactured homes, improvements, dormitories, net purchases of used structures, and brokers' commissions on the sale of residential structures.

NOTE: Percent changes are from NIPA table 5.3.1, and contributions to percent change are from NIPA table 5.3.2. Shares are calculated from NIPA table 5.3.5.

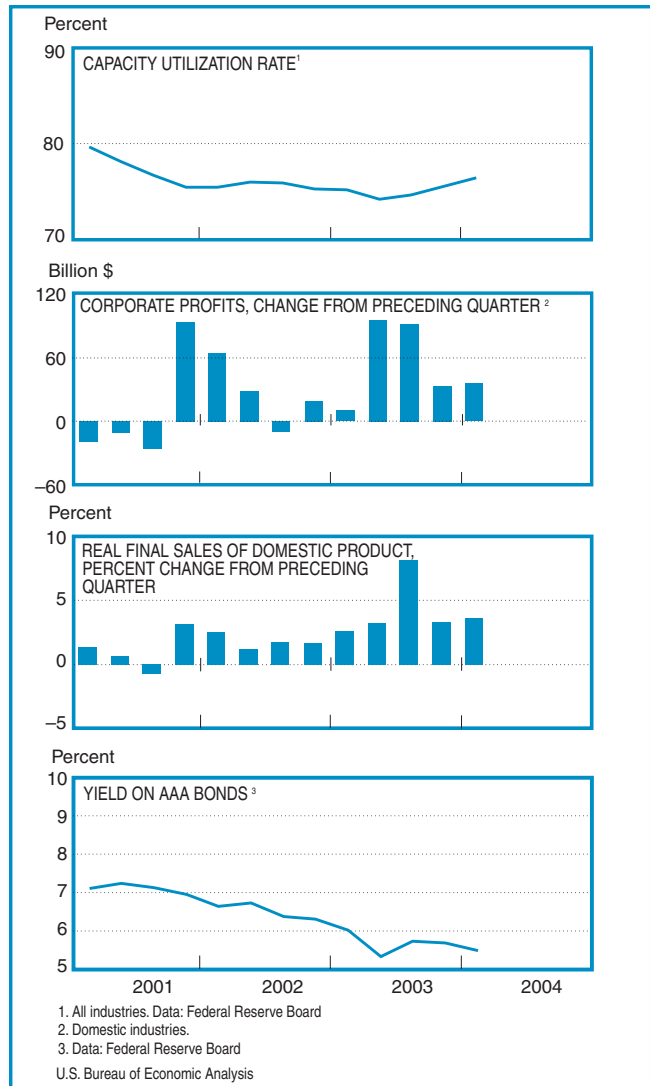
Chart 4. Real Private Fixed Investment



Conditions that are frequently considered in the analysis of investment spending have been generally favorable in recent quarters (chart 5). The capacity utilization rate for manufacturing, mining, and utilities increased modestly for the third quarter in a row; it is still low (76.4 percent), but it is at its highest point since the third quarter of 2001. Domestic corporations' profits from current production increased for the sixth consecutive quarter. Long-term interest rates remained close to the lows recorded last year. As in the fourth quarter, real final sales of domestic product grew at close to its long-run average rate.

Residential. Real private residential investment increased 3.8 percent in the first quarter after increasing 7.9 percent in the fourth. The slowdown was more than accounted for by single-family construction, as both "other" structures and multifamily construction increased modestly after decreasing in the fourth quarter. The upturn in "other" structures was mainly accounted for by brokers' commissions.

Chart 5. Selected Factors Affecting Nonresidential Investment



Inventory Investment

Real inventory investment increased in the first quarter, as the pace of inventory accumulation stepped up to \$28.2 billion from \$9.0 billion (table 5 and chart 6). In the fourth quarter, an increase in inventory investment reflected a swing from inventory liquidation to inventory accumulation.

Retail trade inventories increased about twice as much as in the fourth quarter. The step-up was mainly accounted for by motor vehicle dealers, but a mild upturn in inventories of food and beverage stores also contributed. In contrast, inventories of general merchandise stores and of other retail stores increased less than in the fourth quarter.

Manufacturing inventories increased slightly after decreasing. Inventories of chemicals manufacturers, petroleum refiners, and food manufacturers turned up, and inventories of motor vehicle manufacturers increased more than in the fourth quarter. These changes

were partly offset by a downturn in inventories of manufacturers of computers and electronic products.

Wholesale trade inventories increased more than in the fourth quarter. Most of the step-up was accounted for by merchant wholesalers; the biggest contributions were made by upturns in inventories of drugs, electrical goods, and farm products. These upturns were partly offset by a downturn in the stocks of "other" durable goods.

Farm inventories decreased more than in the fourth quarter. Crop inventories decreased more, and livestock inventories increased less, than in the fourth quarter.

The ratio of real private nonfarm inventories to final sales of goods and structures decreased to 3.52 from 3.54. A ratio that includes all final sales of domestic businesses decreased to 2.19 from 2.20.³ Both ratios have been trending down for decades.

Table 5. Real Change in Private Inventories by Industry

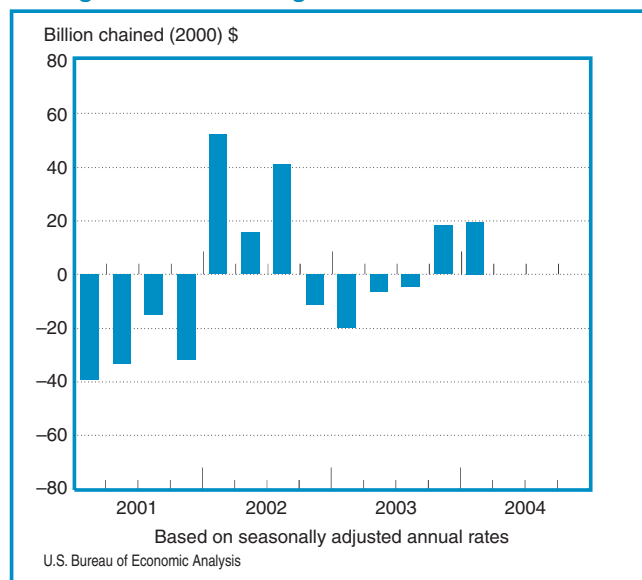
[Billions of chained (2000) dollars; seasonally adjusted at annual rates]

	Level				Change from preceding quarter				
	2003				2004		2003		
	I	II	III	IV	I	II	III	IV	I
Change in private inventories (CPI)	1.6	-4.5	-9.1	9.0	28.2	-6.1	-4.6	18.1	19.2
Farm	1.2	-2.0	-2.8	-0.7	-2.8	-3.2	-0.8	2.1	-2.1
Mining, utilities, and construction	-6.9	-2.2	-0.2	1.1	-4.3	4.7	2.0	1.3	-5.4
Manufacturing	-12.2	-15.1	-15.8	-9.4	0.8	-2.9	-0.7	6.4	10.2
Durable goods industries	-13.4	-14.0	-15.9	-1.0	-3.4	-0.6	-1.9	14.9	-2.4
Nondurable goods industries	1.0	-1.3	-0.2	-8.2	4.0	-2.3	1.1	-8.0	12.2
Wholesale trade	-4.7	-4.6	-1.3	3.8	6.8	0.1	3.3	5.1	3.0
Durable goods industries	0.6	-5.2	-7.6	9.2	8.7	-5.8	-2.4	16.8	-0.5
Nondurable goods industries	-5.1	0.4	5.8	-4.9	-1.6	5.5	5.4	-10.7	3.3
Retail trade	27.1	15.3	11.0	14.1	28.4	-11.8	-4.3	3.1	14.3
Motor vehicle and parts dealers	19.1	15.4	1.2	4.2	22.7	-3.7	-14.2	3.0	18.5
Food and beverage stores	0.8	-0.9	1.4	-2.6	0.4	-1.7	2.3	-4.0	3.0
General merchandise stores	0.3	-0.5	-0.1	4.3	3.3	-0.8	0.4	4.4	-1.0
Other retail stores	7.2	1.6	8.5	8.5	3.0	-5.6	6.9	0.0	-5.5
Other industries	-2.1	4.7	0.6	0.6	1.7	6.8	-4.1	0.0	1.1
Residual ¹	-1.1	-0.5	0.2	-1.5	-3.5	0.6	0.7	-1.7	-2.0
Addenda: Ratios of private inventories to final sales of domestic business:									
Private inventories to final sales	2.51	2.49	2.42	2.40	2.38	.....	.....	.....	.....
Nonfarm inventories to final sales	2.30	2.29	2.22	2.20	2.19	.....	.....	.....	.....
Nonfarm inventories to final sales of goods and structures	3.75	3.72	3.57	3.54	3.52	.....	.....	.....	.....

1. The residual is the difference between the first line and the sum of the most detailed lines. It reflects the fact that chained-dollar estimates are usually not additive, because the quantity indexes on which they are based embody weights of more than one period.

NOTE: Real change in private inventories is from NIPA table 5.6.6B, and ratios of private inventories to final sales of domestic business are from NIPA table 5.7.6B.

Chart 6. Real Private Inventory Investment: Change from Preceding Quarter



Exports and Imports

The growth of real exports and real imports of goods and services slowed in the first quarter (table 6 and chart 7).

Exports of goods increased 6.3 percent after increasing 21.3 percent. Nonautomotive capital goods contributed the most to the slowdown, but a downturn in exports of foods, feeds, and beverages also contributed.

Exports of services also slowed sharply, increasing 1.8 percent in the first quarter after increasing 18.9 percent in the fourth. A downturn in travel contributed the most to the slowdown.

Imports of goods increased 6.6 percent after increasing 18.3 percent (table 6 and chart 8). In imports of goods, the biggest contributions to the slowdown were made by a downturn in autos and by slowdowns in nonautomotive consumer goods and in nonautomotive capital goods. These developments were partly offset by an upturn in petroleum imports.

Imports of services slowed, increasing 2.6 percent in the first quarter after increasing 7.5 percent in the fourth. "Other" private services contributed the most to the slowdown, but travel and passenger fares also contributed; in contrast, imports of "other transportation" increased more than in the fourth quarter.

Table 6. Real Exports and Imports of Goods and Services

[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real exports and imports (percentage points)					Share of current-dollar exports and imports (percent)
	2003			2004	2003			2004	2004	
	II	III	IV	I	II	III	IV	I	I	
Exports of goods and services	-1.1	9.9	20.5	4.9	-1.1	9.9	20.5	4.9	100	
Exports of goods ¹	-1.7	8.6	21.3	6.3	-1.18	6.01	14.64	4.31	69.5	
Foods, feeds, and beverages ..	-12.1	7.6	9.0	-34.4	-0.65	0.39	0.50	-2.16	4.9	
Industrial supplies and materials ..	-3.6	1.1	11.1	13.0	-0.59	0.18	1.83	2.00	16.6	
Capital goods, except automotive ..	-1.1	19.7	36.4	10.6	-0.31	5.19	9.65	2.93	28.6	
Automotive vehicles, engines, and parts ..	-0.4	-6.2	18.2	10.1	-0.03	-0.48	1.37	0.73	7.4	
Consumer goods, except automotive ..	7.4	12.2	14.1	15.1	0.61	1.04	1.25	1.22	8.6	
Other ..	-4.9	-8.0	1.2	-11.0	-0.19	-0.31	0.05	-0.41	3.4	
Exports of services ¹	0.2	12.7	18.9	1.8	0.07	3.86	5.91	0.56	30.5	
Imports of goods and services	9.1	0.8	16.4	5.9	9.1	0.8	16.4	5.9	100	
Imports of goods ¹	13.7	-1.5	18.3	6.6	11.04	-1.28	15.02	5.45	83.3	
Foods, feeds, and beverages ..	5.2	4.0	18.4	6.1	0.19	0.14	0.66	0.22	3.6	
Industrial supplies and materials, except petroleum and products ..	0.5	10.0	2.8	12.6	0.09	1.10	0.36	1.40	11.8	
Petroleum and products ..	55.5	-3.0	-17.0	21.4	3.99	-0.27	-1.59	1.70	9.1	
Capital goods, except automotive ..	12.6	5.0	27.7	9.1	2.33	0.94	5.06	1.72	19.2	
Automotive vehicles, engines, and parts ..	13.8	-14.0	35.2	-3.3	1.83	-2.04	4.36	-0.45	13.3	
Consumer goods, except automotive ..	1.0	-0.2	27.2	7.0	0.21	-0.04	5.54	1.50	21.5	
Other ..	57.5	-19.3	12.5	-12.6	2.39	-1.12	0.63	-0.65	4.7	
Imports of services ¹	-10.9	13.4	7.5	2.6	-1.91	2.13	1.33	0.44	16.7	
Addenda:										
Exports of agricultural goods ² ..	-3.9	14.7	-4.8	-29.1	.....	.....	.....	.....	16.7	
Exports of nonagricultural goods ..	-1.5	8.1	24.0	10.2	.....	.....	.....	.....	5.5	
Imports of nonpetroleum goods ..	9.5	-1.4	23.1	5.0	.....	.....	.....	.....	64.0	

1. Exports and imports of certain goods, primarily military equipment purchased and sold by the Federal Government, are included in services. Beginning with 1986, repairs and alterations of equipment are reclassified from goods to services.

2. Includes parts of foods, feeds, and beverages, of nondurable industrial supplies and materials, and of nondurable nonautomotive consumer goods.

NOTE: Percent changes are from NIPA table 4.2.1, and contributions to percent change are from NIPA table 4.2.2. Shares are calculated from NIPA table 4.2.5.

Chart 7. Real Exports

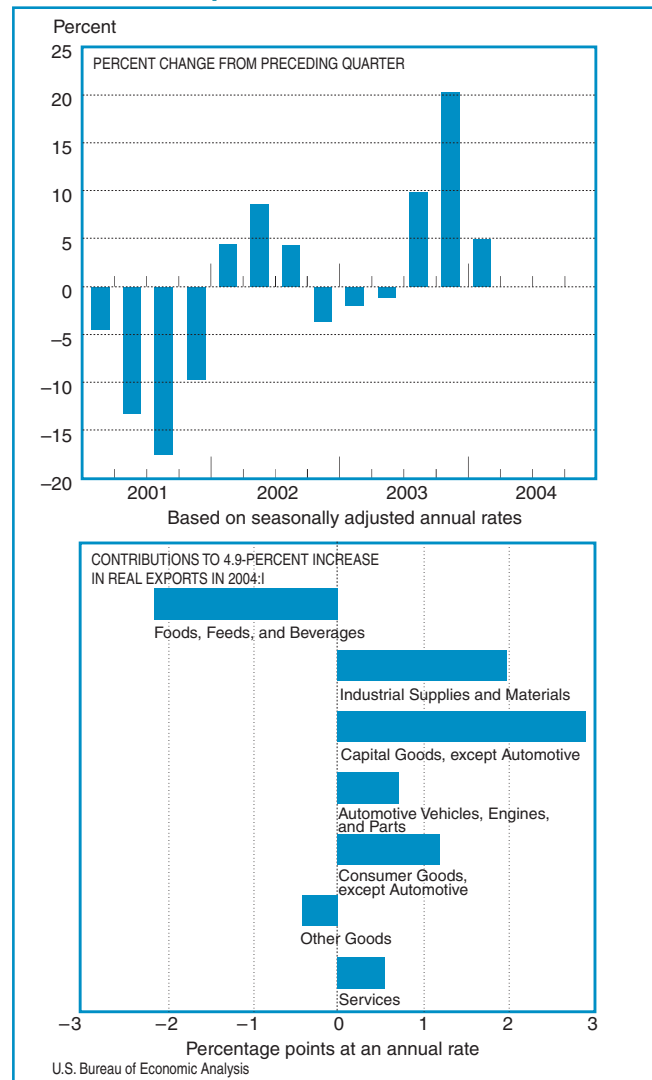
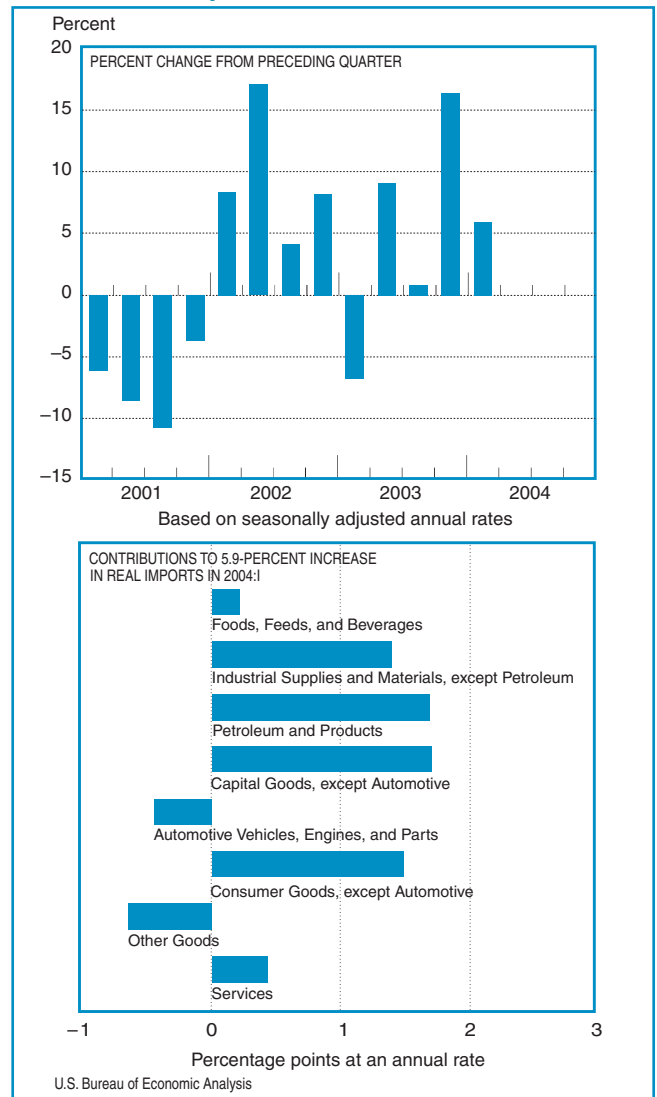


Chart 8. Real Imports



Government Spending

Government spending increased 2.9 percent in the first quarter after little change in the fourth (table 7 and chart 9). Spending by the Federal Government accelerated, while spending by state and local governments decreased modestly for the second quarter in a row.

A step-up in national defense spending reflected a sharp upturn in gross investment and, to a lesser extent, an acceleration in consumption expenditures. The upturn in gross investment was mainly accounted for by "other" equipment, which rebounded strongly after dropping sharply in the fourth quarter. The acceleration in consumption expenditures partly reflected an upturn in compensation of military personnel.

An upturn in Federal nondefense spending was more than accounted for by consumption expenditures for services. Gross investment decreased slightly

after increasing in the fourth quarter.

At the state and local level, first-quarter changes in consumption expenditures and in gross investment were similar to the changes in the fourth quarter. A decrease in gross investment was mainly accounted for by structures, and a small increase in consumption expenditures was mainly accounted for by compensation of employees.

Chart 9. Real Government Consumption and Investment

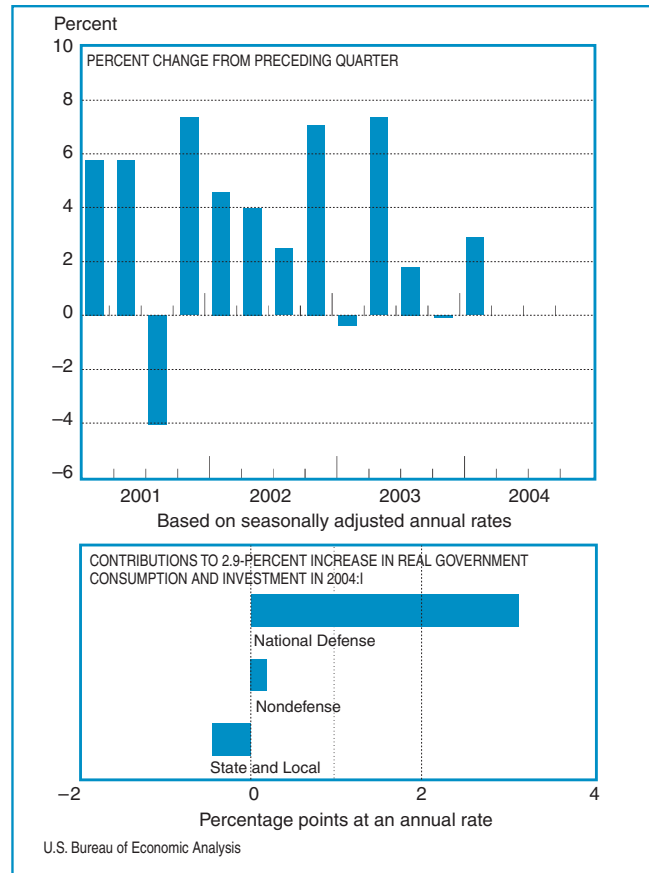


Table 7. Real Government Consumption Expenditures and Gross Investment

[Seasonally adjusted at annual rates]

	Change from preceding period (percent)				Contribution to percent change in real CEGI (percentage points)				Share of current-dollar CEGI (percent)
	2003			2004	2003			2004	
	II	III	IV	I	II	III	IV	I	
Government consumption expenditures and gross investment (CEGI)	7.4	1.8	-0.1	2.9	7.4	1.8	-0.1	2.9	100
Consumption expenditures.....	7.1	0.1	0.7	2.1	5.95	0.07	0.55	1.74	83.1
Gross investment.....	9.0	10.4	-3.6	6.9	1.49	1.68	-0.62	1.15	16.9
Federal.....	23.5	1.2	0.7	9.2	7.95	0.46	0.25	3.33	37.9
National defense.....	41.9	-1.3	3.0	13.2	8.59	-0.33	0.72	3.14	25.3
Consumption expenditures.....	41.9	-4.7	4.8	6.7	7.57	-1.03	1.01	1.43	22.0
Gross investment.....	42.1	26.4	-9.1	70.4	1.02	0.70	-0.29	1.71	3.4
Nondefense.....	-5.0	6.5	-3.7	1.5	-0.64	0.79	-0.47	0.19	12.6
Consumption expenditures.....	-11.7	11.9	-6.1	1.8	-1.37	1.23	-0.69	0.19	10.9
Gross investment.....	53.7	-22.8	14.1	-0.1	0.73	-0.44	0.22	0	1.6
State and local.....	-0.8	2.1	-0.5	-0.7	-0.52	1.29	-0.33	-0.44	62.1
Consumption expenditures.....	-0.5	-0.3	0.4	0.2	-0.25	-0.13	0.22	0.12	50.2
Gross investment.....	-2.2	12.2	-4.4	-4.5	-0.26	1.42	-0.55	-0.55	11.9

NOTE: Percent changes are from NIPA table 3.9.1, and contributions to percent change are from NIPA table 3.9.2. Shares are calculated from NIPA table 3.9.5.

Prices

Inflation as measured by the price index for gross domestic purchases stepped up to 3.3 percent in the first quarter of 2004 from 1.3 percent in the fourth quarter of 2003 (table 8). Excluding food prices (which decelerated) and energy prices (which turned up), the price index increased 2.3 percent after increasing 1.5 percent (chart 10). A Federal pay raise for military and civilian personnel added about 0.3 percentage point to the first-quarter increase in prices.⁴

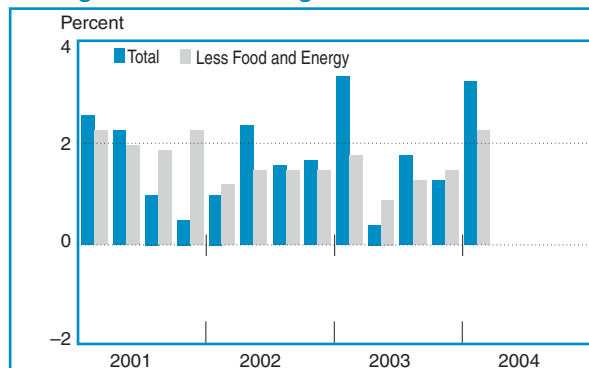
Prices of goods and services purchased by consumers increased 3.0 percent after increasing 1.0 percent. Excluding the prices of food and energy, consumer inflation stepped up much less—to 1.7 percent from 1.2 percent.

Prices of private nonresidential fixed investment increased 1.0 percent after increasing 1.8 percent. Prices of equipment and software decreased slightly after increasing, but prices of structures increased somewhat more than in the fourth quarter.

Prices paid by government increased 5.1 percent after increasing 0.7 percent. The step-up, which was evi-

4. In the NIPAs, an increase in the rate of Federal employee compensation is treated as an increase in the price of employee services purchased by the Federal Government.

Chart 10. Gross Domestic Purchases Prices: Change From Preceding Quarter



NOTE: Percent change at annual rate from preceding quarter; based on seasonally adjusted index numbers (1996=100).

U.S. Bureau of Economic Analysis

dent at both the Federal level and at the state and local level, partly reflected the upturn in energy prices. Prices paid by the Federal Government also reflected the Federal pay raise.

The GDP price index, which measures the prices paid for goods and services produced in the United States, increased 2.6 percent, 0.7 percentage point less than the price index for gross domestic purchases. The smaller increase in the GDP price index reflected a smaller increase in export prices (which are included in the GDP price index) than in import prices (which are included in the price index for gross domestic purchases).

Table 8. Price Indexes

[Percent change at annual rates; based on seasonally adjusted index numbers (2000=100)]

	Change from preceding period (percent)				Contribution to percent change in gross domestic purchases prices (percentage points)			
	2003				2004			
	II	III	IV	I	II	III	IV	I
Gross domestic purchases	0.4	1.8	1.3	3.3	0.4	1.8	1.3	3.3
Personal consumption expenditures	0.5	1.8	1.0	3.0	0.29	1.18	0.68	2.00
Durable goods	-3.9	-4.0	-3.9	-0.3	-0.33	-0.34	-0.33	-0.02
Nondurable goods	-2.1	3.8	0.5	5.3	-0.42	0.71	0.10	1.02
Services	2.7	2.0	2.3	2.5	1.05	0.81	0.92	1.01
Gross private domestic investment...	0.0	2.0	3.6	2.5	0.07	0.29	0.52	0.38
Fixed investment	0.0	2.1	3.7	2.8	-0.01	0.30	0.54	0.41
Nonresidential	-1.2	1.6	1.8	1.0	-0.11	0.15	0.18	0.10
Structures	1.1	2.7	4.7	5.3	0.02	0.06	0.10	0.12
Equipment and software	-1.8	1.2	1.0	-0.2	-0.14	0.09	0.07	-0.02
Residential	2.2	3.1	7.5	6.2	0.10	0.15	0.37	0.31
Change in private inventories .....	.....	.....	.....	.....	0.07	-0.01	-0.02	-0.03
Government consumption expenditures and gross investment.....	0.1	1.7	0.7	5.1	0.01	0.31	0.13	0.89
Federal	1.4	1.3	0.3	7.2	0.09	0.09	0.02	0.47
National defense	1.2	1.3	0.4	6.5	0.05	0.06	0.02	0.28
Nondefense	1.6	1.3	0.1	8.5	0.04	0.03	0	0.18
State and local	-0.7	2.0	1.0	3.8	-0.08	0.22	0.11	0.42
Addenda:								
Gross domestic purchases:								
Food	2.4	2.5	3.9	2.4	0.22	0.23	0.36	0.23
Energy goods and services	-14.1	11.2	-8.1	28.3	-0.62	0.42	-0.33	1.00
Excluding food and energy	0.9	1.3	1.5	2.3	0.77	1.13	1.30	2.04
Personal consumption expenditures:								
Food	2.4	2.5	4.0	2.6	.....	.....	.....	.....
Energy goods and services	-8.6	12.3	-9.5	27.0	.....	.....	.....	.....
Excluding food and energy	0.8	1.0	1.2	1.7	.....	.....	.....	.....
Gross domestic product	1.1	1.6	1.5	2.6	.....	.....	.....	.....

NOTE: Most percent changes are from NIPA table 1.6.7; percent changes for personal consumption expenditures on energy goods and services and for personal consumption expenditures excluding food and energy are calculated from index numbers in NIPA table 2.3.4. Contributions to percent change are from NIPA table 1.6.8.

Revisions

The preliminary estimate of a 4.4-percent increase in real GDP in the first quarter is 0.2 percentage point higher than the advance estimate released last month (table 9). In the past 20 years, the average revision, without regard to sign, from the advance estimate to the preliminary estimate was 0.5 percentage point.

The upward revision to first-quarter real GDP reflected upward revisions to private inventory investment, to state and local government spending, and to exports that were partly offset by revisions to imports and to equipment and software.

Inventory investment contributed 0.48 percentage point more to real GDP growth than in the advance estimate. The revision primarily reflected the incorporation of revised and newly available Census Bureau data on manufacturing and retail trade inventories for February and March.

The upward revision to state and local government spending contributed an additional 0.22 percentage point to real GDP growth. It primarily reflected the incorporation of newly available Census Bureau data on construction put-in-place for March and revised data for January and February.

Exports contributed 0.16 percentage point more to real GDP growth than in the advance estimate, while imports reduced GDP by 0.54 percentage point more than in the advance estimate. Both revisions primarily reflected the incorporation of newly available Census Bureau data on trade in goods for March.

Equipment and software contributed 0.12 percentage point less to real GDP growth than in the advance estimate. The revision primarily reflected newly available Census Bureau data on exports and imports of aircraft for March and revised data for February.

In addition to these revised estimates for the first quarter of 2004, estimates of wages and salaries have been revised for the fourth quarter of 2003.⁵ These revisions are based on tabulations of fourth-quarter wages and salaries of employees covered by state unemployment insurance from the Bureau of Labor Sta-

tistics. Wages and salaries are now estimated to have increased \$57.8 billion in the fourth quarter, an upward revision of \$18.3 billion. Real disposable personal income is now estimated to have increased 1.2 percent in the fourth quarter, revised up from 0.5 percent, and to have increased 4.9 percent in the first quarter, revised up from 4.3 percent.

Table 9. Preliminary and Advance Estimates for the First Quarter of 2004
[Seasonally adjusted at annual rates]

	Percent change from preceding quarter			Contribution to percent change in real GDP		
	Preliminary estimate	Advance estimate	Preliminary minus advance	Preliminary estimate	Advance estimate	Preliminary minus advance
Gross domestic product.....	4.4	4.2	0.2	4.4	4.2	0.2
Personal consumption expenditures	3.9	3.8	0.1	2.71	2.65	0.06
Durable goods.....	-4.2	-4.7	0.5	-0.36	-0.40	0.04
Nondurable goods.....	6.6	6.4	0.2	1.32	1.28	0.04
Services.....	4.2	4.3	-0.1	1.76	1.77	-0.01
Gross private domestic investment..	10.1	7.2	2.9	1.55	1.12	0.43
Private fixed investment.....	5.1	5.4	-0.3	0.80	0.84	-0.04
Nonresidential.....	5.8	7.2	-1.4	0.59	0.73	-0.14
Structures.....	-7.0	-6.5	-0.5	-0.17	-0.15	-0.02
Equipment and software.....	9.8	11.5	-1.7	0.76	0.88	-0.12
Residential.....	3.8	2.1	1.7	0.20	0.11	0.09
Change in private inventories.....				0.75	0.27	0.48
Net exports of goods and services...				-0.35	0.02	-0.37
Exports.....	4.9	3.2	1.7	0.47	0.31	0.16
Goods.....	6.3	4.0	2.3	0.42	0.27	0.15
Services.....	1.8	1.3	0.5	0.05	0.04	0.01
Imports.....	5.9	2.0	3.9	-0.82	-0.28	-0.54
Goods.....	6.6	1.9	4.7	-0.76	-0.23	-0.53
Services.....	2.6	2.3	0.3	-0.06	-0.05	-0.01
Government consumption expenditures and gross investment.....	2.9	2.0	0.9	0.54	0.37	0.17
Federal.....	9.2	10.1	-0.9	0.62	0.67	-0.05
National defense.....	13.2	15.1	-1.9	0.58	0.66	-0.08
Nondefense.....	1.5	0.7	0.8	0.04	0.02	0.02
State and local.....	-0.7	-2.6	1.9	-0.08	-0.30	0.22
Addenda:						
Final sales of domestic product.....	3.7	3.9	-0.2	3.69	3.89	-0.20
Gross domestic purchases price index.....	3.3	3.2	0.1			
GDP price index.....	2.6	2.5	0.1			

NOTE: The preliminary estimates for the first quarter of 2004 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared.

Personal consumption expenditures: Revised retail sales for February and March.

Nonresidential fixed investment: Construction put-in-place data for January and February (revised) and March, manufacturers' shipments of machinery and equipment for March (revised), and manufacturers' shipments of complete civilian aircraft for March.

Residential fixed investment: Revised construction put-in-place data for January and February (revised) and March.

Change in private inventories: Manufacturers' and trade inventories for February (revised) and March (newly available and revised).

Exports and imports of goods and services: Exports and imports of goods for February (revised) and March.

Government consumption expenditures and gross investment: Revised state and local construction put-in-place data for January and February (revised) and March.

Wages and salaries: Revised employment, average hourly earnings, and average weekly hours for March, and tabulations of wages and salaries for the fourth quarter of employees covered by state unemployment insurance.

GDP prices: Revised export and import prices for January through March, revised unit-value index for petroleum imports for March, seasonally adjusted consumer price indexes for January through March (revised), and revised prices of single-family houses under construction for the quarter.

5. Previously, "prior-quarter" revisions were made in conjunction with "final" GDP estimates.

Corporate Profits

Profits from current production increased \$14.4 billion (1.2 percent at a quarterly rate) in the first quarter of 2004 after increasing \$81.4 billion (7.2 percent) in the fourth quarter of 2003 (table 10).⁶ The slowdown was more than accounted for by a downturn in profits from the rest of the world; profits of domestic industries increased about the same as in the fourth quarter of 2003.⁷

Taxes on corporate income increased \$1.1 billion (0.5 percent) in the first quarter, and after-tax profits from current production increased \$13.3 billion (1.4 percent).

The first-quarter decrease in rest-of-the-world profits reflected in about equal measure a decrease in receipts from foreign affiliates of domestic parents and an increase in payments by domestic affiliates to foreign parents.

Profits of domestic financial corporations increased \$30.3 billion (10.0 percent).

Profits of domestic nonfinancial corporations increased \$6.1 billion (0.9 percent), reflecting an increase in real output.⁸ Unit profits were unchanged in the first quarter, as an increase in unit prices matched an increase in unit costs.

Net cash flow from current production, a profits-related measure of internally generated funds available

for investment, increased \$12.4 billion.⁹ The ratio of cash flow to nonresidential fixed investment, an indicator of the extent to which the current level of investment could be financed by internally generated funds, slipped from a record 110.2 in the fourth quarter to 109.4 in the first; the ratio has been above 100 for four consecutive quarters.

9. Cash flow from current production is undistributed profits with inventory valuation and capital consumption adjustments plus the consumption of fixed capital.

Table 10. Corporate Profits

(Seasonally adjusted)

	Billions of dollars					Percent change from preceding quarter				
	Level		Change from preceding quarter							
	2004		2003							
	I	II	III	IV	I	II	III	IV	I	
Current production measures:										
Corporate profits.....	1220	95.7	101.4	81.4	14.4	10.3	9.9	7.2	1.2	
Domestic industries.....	1036.7	95.9	92.2	33.9	36.3	12.3	10.5	3.5	3.6	
Financial.....	334.7	11.2	19.6	5.2	30.3	4.2	7	1.7	10	
Nonfinancial.....	702.1	84.7	72.6	28.7	6.1	16.6	12.2	4.3	0.9	
Rest of the world.....	183.3	-0.2	9.2	47.5	-21.9	-0.2	6.2	30.1	-10.7	
Receipts from the rest of the world.....	274.4	5.4	15.4	49.1	-10.9	2.5	6.9	20.8	-3.8	
Less: Payments to the rest of the world.....	91.1	5.7	6.1	1.7	11	8.6	8.4	2.1	13.8	
Less: Taxes on corporate income.....	244.8	-2.5	19.2	13.1	1.1	-1.2	9	5.7	0.5	
Equals: Profits after tax.....	975.2	98.1	82.4	68.2	13.3	13.8	10.1	7.6	1.4	
Net dividends.....	449.8	7.2	6.8	7.5	8	1.7	1.6	1.7	1.8	
Undistributed profits from current production.....	525.4	90.9	75.5	60.9	5.2	31	19.7	13.2	1	
Net cash flow.....	1289.6	86.1	77.2	70.6	12.4	8.3	6.8	5.9	1	
Industry profits:										
Profits with IVA.....	886.5	12.7	70.6	72.2	-49.9	1.6	8.9	8.4	-5.3	
Domestic industries.....	703.2	13	61.3	24.8	-28	2.1	9.5	3.5	-3.8	
Financial.....	299.3	-1.2	14	3.4	21.3	-0.5	5.4	1.2	7.7	
Nonfinancial.....	403.9	14.2	47.3	21.4	-49.3	3.8	12.3	5	-10.9	
Rest of the world.....	183.3	-0.2	9.2	47.5	-21.9	-0.2	6.2	30.1	-10.7	
Addenda:										
Profits before tax (without IVA and CCAj).....	925.1	-16.5	73.4	92.2	-33	-2	9.3	10.6	-3.4	
Profits after tax (without IVA and CCAj).....	680.3	-14	54.4	79.1	-34.2	-2.4	9.4	12.4	-4.8	
IVA.....	-38.6	29.3	-3	-19.9	-16.9					
CCAj.....	333.6	82.9	30.9	9.1	64.4	56.7	13.5	3.5	23.9	

NOTE: Levels of these and other profits series are shown in NIPA tables 1.12, 1.14, 1.15, and 6.16D.
IVA Inventory valuation adjustment
CCAj Capital consumption adjustment

6. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; it is shown as "corporate profits with inventory valuation and capital consumption adjustments" in NIPA tables 1.7.5, 1.10-1.12, 1.14-1.16, and 6.16D.

Percent changes in profits are shown at quarterly, not annual, rates.

7. Profits from the rest of the world is the difference between (1) receipts by U.S. residents of earnings from foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations and (2) payments by U.S. affiliates of earnings to foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents. These estimates include capital consumption adjustments (but not inventory valuation adjustments) and are derived from BEA's international transactions accounts.

8. "Output" here is the gross value added of nonfinancial corporations. It measures the contribution of these businesses to the Nation's output, and it is measured as the sum of incomes generated by these businesses.

Government Sector

"Net government saving," the difference between current receipts and expenditures, was -\$417.6 billion in the first quarter of 2004, decreasing \$45.3 billion from -\$372.3 billion in the fourth quarter of 2003 (table 11).¹⁰ Both net Federal Government saving and net state and local government saving turned down sharply.

Federal

Net Federal Government saving was -\$441.1 billion in the first quarter of 2004, decreasing \$28.9 billion from -\$412.2 billion in the fourth quarter of 2003. Current receipts turned down, and current expenditures accelerated.

Current receipts. Federal current receipts decreased \$2.6 billion after increasing \$98.1 billion. The downturn was more than accounted for by downturns in current tax receipts and in the current surplus of government enterprises. The downturn in current receipts was partly offset by contributions for government social insurance, which accelerated.

Current tax receipts decreased \$23.1 billion after increasing \$87.7 billion. This downturn was mostly attributable to a downturn in personal current taxes, which decreased \$25.1 billion after increasing \$73.8 billion, reflecting the pattern of income taxes. Non-withheld income taxes decreased \$35.9 billion after increasing \$56.8 billion; withheld income taxes increased \$10.7 billion after increasing \$17.0 billion. The downturn in current tax receipts was also attributable to decelerations in taxes on corporate income and in taxes on production and imports.

The current surplus of government enterprises decreased \$1.3 billion after increasing \$1.0 billion. The downturn was more than accounted for by a downturn in the current surplus for the Postal Service, which decreased \$1.5 billion after increasing \$0.9 billion.

Contributions for government social insurance increased \$21.2 billion after increasing \$8.1 billion. The acceleration was mostly accounted for by an acceleration in contributions by employers, employees, and the self-employed for social security (old-age, survivors, disability, and health insurance trust funds), which increased \$14.2 billion after increasing \$8.0 billion. The acceleration was also attributable to an upturn in contributions for unemployment programs, which increased \$6.8 billion after decreasing \$0.1 billion.

Current expenditures. Federal current expenditures increased \$26.3 billion after increasing \$15.5 billion. The acceleration was more than accounted for by an acceleration in consumption expenditures. The accel-

eration in current expenditures was partly offset by a downturn in interest payments and by a deceleration in current transfer payments.

Consumption expenditures increased \$21.8 billion

Table 11. Government Sector Current Receipts and Expenditures

[Billions of dollars, seasonally adjusted at annual rates]

	Level	Change from preceding quarter			
	2004	2003			2004
	I	II	III	IV	I
Current receipts	3,101.3	2.4	-25.7	119.7	11.0
Current expenditures	3,518.9	80.8	16.6	10.2	56.4
Net government saving	-417.6	-78.3	-42.5	109.5	-45.3
Social insurance funds	58.9	-10.2	1.0	2.7	15.7
Other	-476.6	-68.1	-43.3	106.7	-61.1
Federal					
Current receipts	1,884.4	0.4	-75.0	98.1	-2.6
Current tax receipts	1,039.2	-3.2	-82.5	87.7	-23.1
Personal current taxes	747.5	0.3	-95.8	73.8	-25.1
Taxes on production and imports	91.5	-0.6	-1.4	3.6	1.6
Taxes on corporate income	193.1	-3.1	14.9	10.1	0.2
Taxes from the rest of the world	7.2	0.1	-0.2	0.2	0.3
Contributions for government social insurance	794.4	3.4	6.6	8.1	21.2
Income receipts on assets	26.1	1.1	1.3	1.0	0.2
Current transfer receipts	27.5	0.3	0.6	0.2	0.4
Current surplus of government enterprises	-2.8	-1.2	-0.9	1.0	-1.3
Current expenditures	2,325.5	104.5	-4.8	15.5	26.3
Consumption expenditures	696.5	33.0	3.4	2.4	21.8
National defense	465.0	38.9	-3.8	5.8	15.5
Nondefense	231.5	-5.9	7.1	-3.3	6.3
Current transfer payments	1,373.1	52.2	9.4	12.2	12.0
Government social benefits	1,001.8	18.2	10.0	8.0	14.1
To persons	999.0	18.1	10.1	7.9	14.2
To the rest of the world	2.9	0.0	0.0	0.1	0.0
Other current transfer payments	371.2	33.9	-0.6	4.2	-2.2
Grants-in-aid to state and local governments	340.5	34.7	0.8	7.0	-12.8
To the rest of the world	30.7	-0.8	-1.4	-2.9	10.7
Interest payments	215.9	4.8	-6.9	4.0	-3.7
Subsidies	41.6	11.8	-9.3	-3.1	-2.3
Less: Wage accruals less disbursements	1.5	-2.8	1.4	0.0	1.5
Net Federal Government saving	-441.1	-104.3	-70.2	82.7	-28.9
Social insurance funds	55.3	-10.3	0.9	2.7	15.6
Other	-496.4	-94.0	-71.1	80.0	-44.5
State and local					
Current receipts	1,157.4	36.7	50.1	28.6	0.8
Current tax receipts	1,014.0	-0.1	48.7	19.9	10.5
Personal current taxes	243.7	-9.5	34.1	5.4	-1.4
Taxes on production and imports	727.9	8.5	10.7	11.9	10.9
Taxes on corporate income	42.5	1.1	3.8	2.5	1.2
Contributions for government social insurance	14.1	0.1	0.1	0.1	0.1
Income receipts on assets	94.1	-0.5	0.0	0.4	-0.2
Current transfer receipts	429.0	36.4	2.5	8.8	-10.2
Federal grants-in-aid	340.5	34.7	0.8	7.0	-12.8
Other	88.5	1.7	1.7	1.8	2.6
Current surplus of government enterprises	6.2	0.8	-1.2	-0.6	0.6
Current expenditures	1,533.9	10.8	22.3	1.7	17.3
Consumption expenditures	1,061.4	-4.9	5.4	3.2	11.9
Government social benefits	376.3	4.7	17.3	-4.4	5.0
Interest payments	95.6	0.7	0.8	1.1	1.0
Subsidies	0.7	0.3	-1.3	1.9	-0.5
Less: Wage accruals less disbursements	0.0	0.0	0.0	0.0	0.0
Net state and local government saving	23.5	25.9	27.8	26.8	-16.4
Social insurance funds	3.6	0.0	0.1	0.0	0.1
Other	19.9	25.9	27.7	26.8	-16.5
Addendum:					
Net lending or net borrowing (-) ¹	-530.4	-91.4	-50.9	119.8	-51.0
Federal	-473.3	-128.7	-76.5	97.8	-37.3
State and local	-57.1	37.4	25.5	22.0	-13.7

1. "Net lending or borrowing" is similar to "net financial investment" in the flow-of-funds accounts prepared by the Board of Governors of the Federal Reserve System. The two measures differ primarily because government net lending or borrowing is estimated from data for transactions, whereas net financial investment is estimated from data for financial assets. There are also small conceptual differences, such as the classification of the Federal Government's railroad retirement and veterans life insurance programs.

10. Net government saving is shown in NIPA tables 3.1-3.3.

after increasing \$2.4 billion. Defense consumption expenditures accelerated, and nondefense consumption expenditures turned up.

Defense consumption expenditures increased \$15.5 billion after increasing \$5.8 billion. The acceleration was mostly attributable to an upturn in compensation of general government employees, which increased \$7.0 billion after decreasing \$0.4 billion; the upturn was mostly accounted for by the January 2004 pay raise, which boosted compensation \$5.5 billion. Military compensation increased \$4.8 billion after decreasing \$1.1 billion; civilian compensation increased \$2.2 billion after increasing \$0.7 billion. Government spending for durable goods, for services, and for nondurable goods also accelerated.

Nondefense consumption expenditures increased \$6.3 billion after decreasing \$3.3 billion. This upturn was more than accounted for by upturns in services and in compensation of general government employees. Services increased \$2.5 billion after decreasing \$3.4 billion, and compensation increased \$3.4 billion after decreasing \$0.4 billion; compensation was boosted \$4.1 billion by the January 2004 pay raise. Government spending for durable goods decelerated, and spending for nondurable goods decreased more.

Interest payments decreased \$3.7 billion after increasing \$4.0 billion, mainly reflecting the downturn in interest paid to persons and business, which decreased \$5.2 billion after increasing \$1.5 billion. Interest payments to the rest of the world decelerated.

Current transfer payments increased \$12.0 billion after increasing \$12.2 billion. This deceleration was more than accounted for by a downturn in "other current transfer payments" that was mostly offset by an acceleration in government social benefits.

"Other current transfer payments" decreased \$2.2 billion after increasing \$4.2 billion. This downturn was more than accounted for by a sharp turnaround in grants-in-aid to state and local governments, which decreased \$12.8 billion after increasing \$7.0 billion. The turnaround reflected a downturn in grants for central executive, legislative, and judicial activities, which resulted from the cessation of payments from the Temporary State Fiscal Relief Fund that was authorized as part of the Jobs and Growth Tax Relief Reconciliation Act of 2003. Grants for housing and community services, for natural resources, for labor and training services, and for national defense also turned down; the downturn was partly offset by upturns in grants for education, for Medicaid, and for unemployment insurance. Grants for other income support decreased less.

The downturn in grants-in-aid to state and local government was moderated by an upswing in "other

current transfer payments to the rest of the world," which increased \$10.7 billion after decreasing \$2.9 billion. The upswing reflected a payment of \$2.8 billion (\$11.2 billion at an annual rate) to Israel and Egypt for economic support; in the fourth quarter, \$0.6 billion (\$2.4 billion at an annual rate) in economic support payments were disbursed.

Federal Government social benefits to persons increased \$14.2 billion after increasing \$7.9 billion. The step-up mainly reflected a 2.1-percent cost-of-living adjustment that boosted benefits \$3.8 billion for social security (old-age, survivors, disability, and health insurance), veterans pensions, supplemental security income, and other programs. The step-up was also attributable to payments for the Earned Income and Child Tax Credits, which boosted social benefits \$4.6 billion. Tempering the step-up, social benefits for unemployment programs decreased \$9.9 billion after decreasing \$3.0 billion, and benefits for Medicare (hospital and supplemental medical insurance) decelerated.

State and local

Net state and local government saving was \$23.5 billion in the first quarter of 2004, decreasing \$16.4 billion from \$39.9 billion in the fourth quarter of 2003. Current receipts decelerated, and current expenditures accelerated.

Current receipts. State and local government current receipts increased \$0.8 billion after increasing \$28.6 billion. The deceleration was more than accounted for by a downturn in current transfer receipts and by a deceleration in current tax receipts.

Current transfer receipts decreased \$10.2 billion after increasing \$8.8 billion. This downturn was more than accounted for by a downturn in Federal grants-in-aid, which decreased \$12.8 billion after increasing \$7.0 billion.

Current tax receipts increased \$10.5 billion after increasing \$19.9 billion. The deceleration was mostly accounted for by a downturn in personal current taxes, which decreased \$1.4 billion after increasing \$5.4 billion, mostly as a result of a deceleration in personal income taxes; both taxes on corporate income and taxes on production and imports decelerated.

Current expenditures. State and local government current expenditures increased \$17.3 billion after increasing \$1.7 billion. Government social benefit payments turned up, and consumption expenditures accelerated.

Government social benefit payments to persons increased \$5.0 billion after decreasing \$4.4 billion. The upturn was mostly attributable to an upturn in Medicaid payments.

Consumption expenditures increased \$11.9 billion after increasing \$3.2 billion. The acceleration resulted from accelerations in government spending for non-durable goods, for compensation, and for services.

Net lending or net borrowing

“Net lending or net borrowing(–)” is an alternative measure of the government fiscal position. Net lending is the financing requirement of the government sector, and it is derived as net government saving plus the consumption of fixed capital and “capital transfers received (net)” less gross investment and net purchases of nonproduced assets.¹¹

11. These estimates are also shown in NIPA tables 3.1–3.3.

Net borrowing increased \$51.0 billion in the first quarter after decreasing \$119.8 billion in the fourth quarter. Federal Government net borrowing increased \$37.3 billion after decreasing \$97.8 billion as the result of the downturn in net Federal Government saving. State and local government net borrowing increased \$13.7 billion after decreasing \$22.0 billion as a result of the downturn in net state and local government saving.

Government gross investment turned up, increasing \$7.2 billion after decreasing \$2.2 billion. Federal Government gross investment increased \$9.1 billion after decreasing \$0.5 billion. State and local government gross investment decreased \$1.9 billion after decreasing \$1.7 billion.